

SEYCHELLES

Key conditions and challenges

Table 1 **2020**

Population, million	0.1
GDP, current US\$ billion	1.2
GDP per capita, current US\$	12313.9
International poverty rate (\$ 19) ^a	0.5
Lower middle-income poverty rate (\$3.2) ^a	1.1
Upper middle-income poverty rate (\$5.5) ^a	5.2
Gini index ^a	32.1
School enrollment, primary (% gross) ^b	100.4
Life expectancy at birth, years ^b	72.8

Source: WDI, Macro Poverty Outlook, and official data.

Notes:

(a) Most recent value (2018), 2011 PPPs.

(b) WDI for school enrollment (2019); life expectancy (2018).

Real GDP declined by 13.3 percent in 2020 and is projected to increase to 1.8 percent in 2021 as the tourism industry recovers in the second half of the year. In the medium-term, economic growth is expected to rebound, but the fiscal burden attached to the government's response package is expected to linger and substantially delay the country's ability to reach its debt target. Poverty increased in 2020 due to the impact of COVID-19.

A lack of economic diversification and the high dependence on the tourism and fishing sectors as well as imports, exposes Seychelles to external shocks. These shocks are transmitted through disruptions in international travel and tourism demand; fluctuations in fishing stocks and instabilities in the price of essential commodities such as food and fuel prices. Seychelles is also exposed to fiscal risks emanating from the share of short-term domestic debt in total government debt and fiscal risks from State-owned enterprises (SOEs), particularly Air Seychelles, whose financial difficulties has been exacerbated by the decline in the global travel industry.

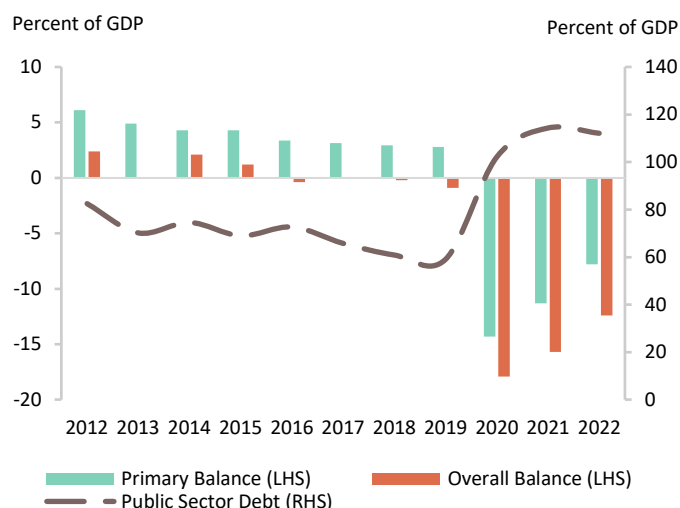
As the pandemic continues to unfold, the Seychelle's economy will continue to feel the effects of the decline in the global travel industry. Also, unemployment may increase as the government winds down the financial assistance for job retention program to the private sector. While the country's attempts to increase the benefits of various social protection programs in the last few years have partly contributed to a decline in poverty between 2013-18, the impact of COVID-19 have tempered the gains made. Majority of low-income workers are employed in accommodation and food service activities, health services, and business support activities. As a result, they have been significantly impacted by COVID-19.

Recent developments

Seychelles economy is still grappling with the negative effects of COVID-19 since its onset in early 2020. The spread of the virus led to a 60 percent decline in the tourism industry and a decline of 13.4 percent in economic activity. In addition to the contraction in economic activity, the year was characterised by financial difficulties in the private sector and frictions in the labour market. Given the significant decline in the performance of the tourism industry, the fisheries and manufacturing sectors are currently the leading drivers of the economy. However, income generated from these two sectors was insufficient to offset the loss in income from the tourism industry.

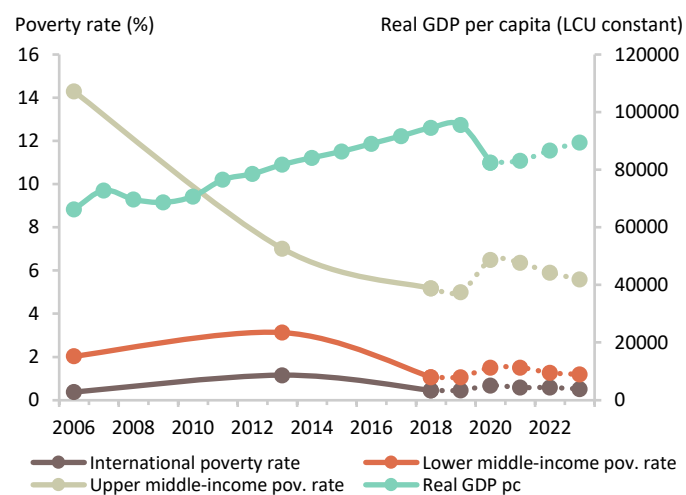
The Government of Seychelles responded to COVID-19 with measures to mitigate the economic fallout on businesses and households. As a result, expenditures increased drastically to 52 percent of GDP in 2020 from 37.7 percent of GDP in 2019. At the same time, revenue declined to 34 percent of GDP from 37.6 percent of GDP in 2019 due to lower aggregate demand as tourism activities declined. Consequently, the fiscal deficit increased to 17.8 percent of GDP in 2020 from 1 percent in 2019. The financing gap that arose was financed with increased borrowing from both the domestic and external markets. This resulted in an increase in the debt to GDP ratio to 102.3 percent of GDP from 58.7 percent in 2019. The shock to GDP and the depreciation in the

FIGURE 1 Seychelles / Fiscal balance and public sector debt



Sources: WDI and staff estimates.

FIGURE 2 Seychelles / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

exchange rate also contributed to increasing debt levels.

Vulnerable households linked to economic sectors affected by COVID-19 face a substantially elevated risk of falling into poverty, at least in the short-run. While the full impact of COVID-19 on poverty in 2020 is not yet known, poverty is projected to rise to 6.5 percent in 2020. The unemployment rate jumped to 4 percent in the third quarter of 2020, from 2.3 percent in the last quarter of 2019. This was primarily driven by a decline of 1.7 percent in employment in tourism related industries due to the drastic drop in visitor arrivals. However, the unemployment rate peaked at 4.8 percent in the fourth quarter of 2020 and started to decline since then due to the mitigating impact of the financial assistance for job retention program implemented by the government of Seychelles.

Outlook

Economic growth is projected to recover to 1.8 percent in 2021 contingent on the recovery of the tourism sector which is heavily reliant on external developments such as the revival of the global economy and the rate of vaccination, particularly in key tourism markets. The performance of

the economy in 2021 is also dependent on the government reaching its target of vaccinating 70 percent of the population. In the medium-term, economic growth is expected to recover as global travel resumes. Inflationary pressures are anticipated to be higher in the short to medium term on account of the depreciation of the domestic currency, a trend that is expected to persist if foreign exchange demand continues to exceed supply.

The fiscal deficit is expected to contract over the medium-term, as the increase in spending associated with COVID-19 subsidies. Revenue collection will increase in the medium-term driven by a resumption of economic activities although generous loss-carry forward provisions and gradual recovery in tourism will likely continue to suppress VAT and business tax collection below pre-crisis levels for several years to come. Meanwhile, expenditure is projected to remain higher than pre-crisis levels in 2021 as the spending associated with COVID-19 continues until the end of the first half of the year. The debt to GDP ratio will remain above the debt target <50 percent of GDP in the medium-term (that was to be reached by 2021), by several years. The fiscal position faces risks from interlinked domestic factors such as fiscal and debt sustainability.

Poverty is projected to slowly continue to decline to 5.9 percent by 2022 (\$5.5 a day per capita line), following an increase to 6.5 percent in 2020 due to COVID-19. Nevertheless, this depends on the ability of the tourism and services sectors to bounce back over the next few years. Finally, the high level of social spending undertaken by the GoS is expected to become unsustainable in the wake of a rapidly aging population and in the context of COVID-19 which has led to an increase in fiscal pressures. Thus, a cut in social spending is likely to lead to an increase in both poverty and inequality in the post-COVID stage.

TABLE 2 Seychelles / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	4.1	2.0	-13.3	1.8	4.3	4.2
Private Consumption	3.3	4.8	-10.8	6.7	5.8	5.3
Government Consumption	8.8	-0.2	4.3	4.1	2.3	-1.5
Gross Fixed Capital Investment	3.8	-2.7	-37.7	22.1	3.1	8.3
Exports, Goods and Services	2.9	2.0	-39.6	30.9	7.5	7.4
Imports, Goods and Services	4.0	0.9	-38.2	38.2	6.5	6.5
Real GDP growth, at constant factor prices	4.1	1.8	-13.4	1.8	4.3	4.2
Agriculture	0.9	1.1	-0.2	1.0	1.1	1.1
Industry	2.4	2.1	0.7	2.0	2.4	2.0
Services	4.4	1.7	-15.4	1.8	4.7	4.6
Inflation (Consumer Price Index)	3.7	2.0	1.2	3.7	2.5	3.0
Current Account Balance (% of GDP)	-19.6	-18.8	-29.7	-36.9	-34.9	-29.2
Net Foreign Direct Investment (% of GDP)	17.2	17.7	10.1	16.3	18.7	22.6
Fiscal Balance (% of GDP)	-0.2	1.0	-17.8	-15.7	-12.4	-9.0
Debt (% of GDP)	59.7	58.7	102.3	114.3	112.1	106.4
Primary Balance (% of GDP)	2.9	3.6	-14.3	-11.3	-7.8	-4.6
International poverty rate (\$1.9 in 2011 PPP)^{a,b}	0.5	0.5	0.7	0.6	0.6	0.5
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{a,b}	1.1	1.1	1.5	1.5	1.3	1.2
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	5.2	5.0	6.5	6.4	5.9	5.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.

Notes: e = estimate, f = forecast.

(a) Calculations based on 2018-HBS. Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021 to 2023.

(b) Projection using neutral distribution (2018) with pass-through = 0.87 based on GDP per capita in constant LCU.